

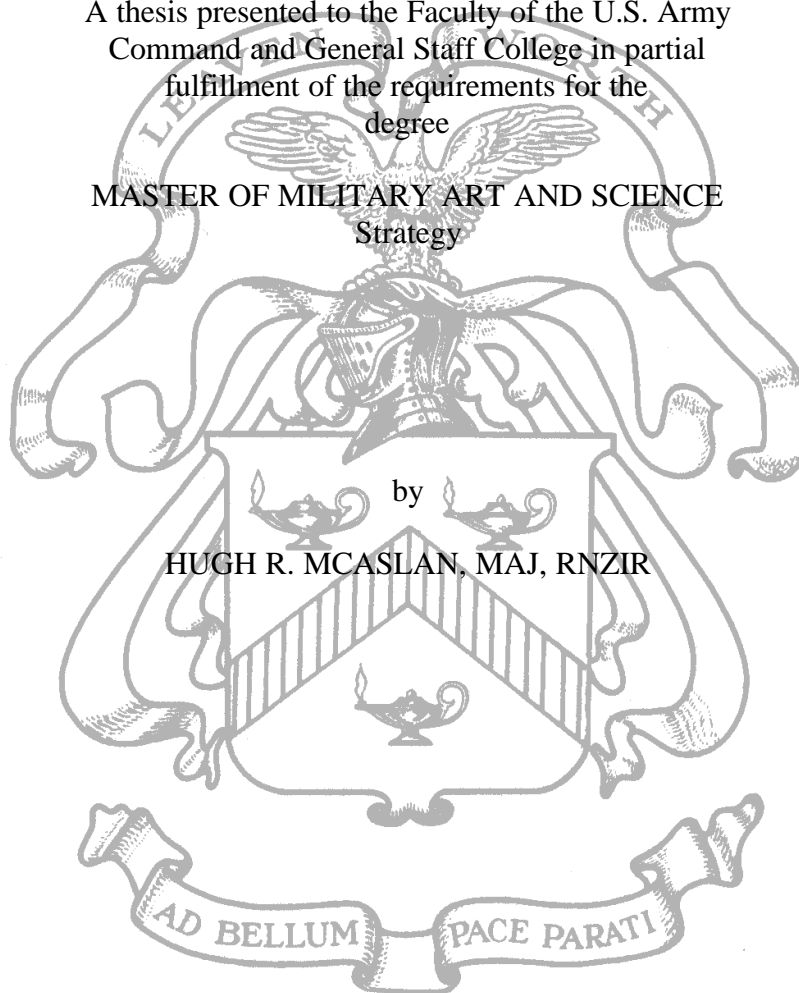
# CONTEMPOARY UNITED STATES FOREIGN POLICY TOWARDS INDONESIA

A thesis presented to the Faculty of the U.S. Army  
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fulfillment of the requirements for the  
degree

MASTER OF MILITARY ART AND SCIENCE  
Strategy

by

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## ABSTRACT

CONTEMPOARY UNITED STATES FOREIGN POLICY TOWARDS INDONESIA  
by MAJ Hugh R. McAslan, 77 pages.

United States national interests in Indonesia have traditionally being based on strategic security requirements given Indonesia's geographic location between the Indian and Pacific Oceans, and strong anti-communist stance during the Cold War. However, the 1990s witnessed a decline in relations between the two countries primarily due to human rights violations committed by the Indonesian military in East Timor.

This thesis examines contemporary United States foreign policy towards Indonesia to determine whether this policy promotes United States national interests in this country. It defines what constitutes United States national interests under strategic and security, economic, political, and humanitarian interests, and then analyses contemporary policy against these categories to determine whether they promote the identified interests.

The thesis identifies that Indonesia's geographic location and demographic size and composition remain key enduring interests, while the rise of globally linked terrorist organizations has become the preeminent contemporary interest of the United States in this country. The thesis concludes that contemporary United States policy does promote national interests in Indonesia, although, the Leahy Amendment continues to limit the employment of the military instrument of power. This has constrained the Bush administration's ability to develop more elaborate policies to satisfy security interests, and enhance professional development in the Indonesian military.

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## ACRONYMS

ACP	ASEAN Cooperation Plan
ARF	ASEAN Regional Forum
ASEAN	Association of South East Asian Nations
EAI	Enterprise for ASEAN Initiative
EXIM	Export-Import Bank of the United States
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GSP	Generalized System of Preferences
IMF	International Monetary Fund
NGO	Nongovernmental Organization
OPIC	Overseas Private Investment Corporation
PKI	Parti Kommuni Indonesia (Indonesian Communist Party)
TDA	United States Trade and Development Agency
TIFA	Trade and Investment Framework Agreement
UN	United Nations
USAID	United States Agency for International Development
WTO	World Trade Organization

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## CHAPTER 1

### INTRODUCTION

Indonesia is important to the United States. As the largest Muslim and fourth most populous nation on earth, it has a significant influence on regional stability in Southeast Asia and the South West Pacific, a region of considerable national interest to the US from an economic and security perspective.

Indonesia is comprised of more than 13,000 islands, and populated by 234 million people representing over 200 distinct cultures. It is a developing democracy, and practices a moderate form of Islam. As a member of the Organization of Islamic Conference and the largest Muslim state in the world, Indonesia exerts influence throughout the Muslim world with its moderate interpretation of Islam. This influence is important to the US, given the growing advent of Islamic extremism that has targeted US interests in recent times.

Indonesia lies astride vital sea-lanes that link the Indian and Pacific Oceans. These sea-lanes are critical to US interests both from a strategic military and economic perspective, and critical to the economic viability of countries located in the Pacific Rim and Southeast Asia. The US and Indonesia have a symbiotic economic relationship, with US companies and financial institutions providing a major source of foreign investment in Indonesia, while the US provides a major market for Indonesian exports.

Indonesia is one of the founding members of the Association of South East Asian Nations (ASEAN) alliance, an alliance that has grown significantly since its inception in 1967 to now include ten nations within the South East Asian Region. In addition to

Indonesia, the alliance includes the founding member states of Brunei, Malaysia, Singapore, the Philippines and Thailand, and new members who joined the alliance in the 1990s. These include Vietnam (1995), Laos (1997), Myanmar (1997), and Cambodia (1999). It is an alliance where Indonesia exerts considerable influence, given its size and status as a founding member. Examples of this influence include Jakarta's initiative to search for a peace settlement in Cambodia in the late 1980s by hosting the Jakarta Informal Meetings. These meetings eventually paved the way for the convening of the Paris Peace Conference in 1991, and Cambodia's eventual admission to ASEAN in 1999 (Nguyen and Richter 2003, 180). ASEAN is an alliance that has developed constructive relationships among member nations, particularly with regard to resolving a number of longstanding territorial disputes, and it has become a cornerstone for the promotion of economic and social development, and stability and security in the region.

However, Indonesia is also faced with a variety of social, economic, and internal security issues, most of which are not new. Most recently, it has been the target of two major terrorist attacks that have been attributed to the Indonesian-based Jemaah Islamiyah group, which is believed to have links to Al Qaeda. Indonesian authorities also continue to grapple with a number of separatist movements attempting to break from Jakarta's rule, while ethnic violence further destabilizes other provinces of the archipelago. Although having come some way in addressing economic reform, Indonesia has been the slowest of all affected Asian countries to recover from the 1998 economic crisis, and remains burdened by significant foreign debt.

US-Indonesian relations have progressively declined over the past twelve years, largely due to US concerns over human rights violations committed by the Indonesian

military in East Timor in the 1990s. This has resulted in legislation and policy that has marginalized Indonesia. The aim of this legislation and shift in policy has been to apply pressure to Jakarta to investigate and convict those officers responsible for the atrocities committed in East Timor, and undertake political reform to adopt a more democratic form of government. Although some officers have stood trial, the Indonesian judicial system has largely been viewed as ineffective by both Western governments and nongovernmental organizations due to a number of acquittals, and light sentencing by Western standards for guilty verdicts. Democratization of the political system has commenced, but it has proved to be a labored process in the face of political instability caused through cronyism and corruption.

Within the current environment of global instability and the ongoing US-led global war on terrorism, it is timely to review and analyze the policy direction that the US is adopting towards the world's largest Muslim nation, which has operable terrorist cells within its borders and a democracy in its infancy faced with significant social, economic, and security issues.

#### Thesis Question

The thesis question is: Does contemporary US policy promote US national interests in Indonesia?

Supporting questions are:

1. What are US national interests in Indonesia?
2. What is contemporary US policy towards Indonesia?

### Historical Overview of US-Indonesian Relations

The earliest contact between the US and what is now Indonesia was based on commercial interests, and commenced when maritime traders from Salem, Massachusetts, established trade in Sumatran pepper in the late eighteenth and early nineteenth century (Gardner 1997, 9). The economic relationship between Indonesia's Dutch colonial rulers and the US continued to develop in the early part of the twentieth century as the variety of commodities traded increased. US companies entered the Indonesian rubber industry in 1910 in partnership with Dutch companies, while Standard Vacuum of California, which is now known as Chevron, entered the petroleum sector in 1920 (Gardner 1997, 10). However, US trade relations with the Netherlands East Indies were not always cordial, given the Dutch practice of using preferential trade agreements to direct business through the Dutch homeland, which ran at cross purposes to the US's emphasis on free market principles (Gardner 1997, 9).

The early part of the twentieth century also signaled the rise of the Indonesian nationalist movement led by Sukarno. Sukarno's political ideology was a mixture of Marxism, Islam, and nationalism (Gardner 1997, 11). Dutch colonial authorities focused on the communist leanings of his ideology, imprisoning and exiling a number of key personalities in the nationalist movement including Sukarno and his deputy Mohammad Hatta. The injustices of Dutch rule and true intentions of the Indonesian nationalist movement began to receive wider attention in the US in late 1930s. However, the outbreak of WWII altered Washington's focus, which shifted to the strategic resources of the archipelago to support the war effort. At this time, the Netherlands East Indies

provided the US one-third of its rubber, 10 percent of its tin, 90 percent of its quinine, and 80 percent of its palm oil (Gardner 1997, 12).

Indonesia was captured by the Japanese in 1941 in their quest to secure the archipelago's petroleum resources, and remained under their control until the conclusion of the war. Sukarno exploited the Japanese occupation, obtaining a position within the Japanese administration that provided access to communications facilities he could utilize to advance the nationalist cause among the population (Gardner 1987, 13). Following the Japanese surrender, a six week period elapsed before British forces landed in Java to take temporary control of the archipelago. During this time, the Indonesian Republican troops disarmed the Japanese for their own defense against the Dutch (Gardner 1997, 19). It was during this period that Sukarno consolidated his political power, declaring Indonesia's independence on 17 August 1945.

The Dutch were forced to negotiate with the new republic, given their weak position following WWII. These negotiations resulted in the British-brokered Linggajati Agreement on 25 May 1947, which provided for Dutch recognition of Indonesian republican rule on Java and Sumatra, and the Netherlands-Indonesian Union under the Dutch crown (Fredrick and Worden 1992, 3). However, on 20 July 1947, the Dutch launched a major military offensive against the republican forces over supposed breaches in the Linggajati Agreement. Despite subsequent negotiations and agreements between the Dutch and the Indonesian republicans brokered by the UN in January 1948, the Dutch conducted further military operations in December of that year, which included the arrest and exile of Sukarno. This brought widespread condemnation on The Hague from the international community, UN Security Council, and the US (Fredrick and Worden 1992,

3). This resulted in a Security Council Resolution being passed in January 1949 demanding the reinstatement of the republican government. Further international pressure was applied to the Dutch to transfer full authority for the archipelago to the Indonesians by 1 July, 1950. Sovereignty was formally transferred to the Indonesians on 27 December 1949 (Fredrick and Worden 1992, 3-4), with Sukarno installed as the first president.

Despite the US advocating Indonesian independence, Sukarno's rule was characterized by an ideological struggle with the West. This struggle was predicated on Sukarno's view that imperialism was equated with capitalism, based on his experience with Dutch colonization (Smith 2000, 3). Consequently, Sukarno closed the economy to foreign investment and sought to forge an axis with Cambodia, China, North Vietnam, and North Korea to combat what he viewed as neocolonialism, colonialism, and imperialism in Asia (Frederick and Worden 1992, 1)

The early 1960s was characterized by Sukarno's radical and aggressive foreign policy. He committed troops to Irian Jaya in 1962 to "force the issue" of continued Dutch colonial presence in the region, and launched the Konfrontasi (Confrontation) against Malaysia in 1963, which he viewed as a product of continued British colonialism (Smith 2000, 3). In 1964, Sukarno withdrew Indonesia from the United Nations in protest to Malaysia's admittance as a nonpermanent member of the Security Council.

Although Indonesia's foreign policy was based on the principle of nonalignment with any of the major power blocks of the time, Sukarno sought closer ties with China and brought Indonesia closer to the Indonesian Communist Party (Parti Kommunist Indonesia) [PKI] during this period. This created concern among some senior Indonesian military leaders, given that the PKI had the largest membership of any communist party

outside of China, and that Sukarno was compromising Indonesia's principle of nonalignment (Smith 2000, 3).

Relations between the US and Indonesia were relatively limited during the Sukarno period due to the issues previously mentioned. Although the US provided security assistance funding and military contact through such programs as the International Military Education and Training (IMET) program (Frederick and Worden 1992, 1), Sukarno's closure of the economy by barring international investment and raising tariff barriers on imports limited the US's ability to exert its influence in Indonesia (Smith 2000, 3).

Suharto assumed power from Sukarno in September 1965 following an unsuccessful coup by a group of procommunist military officers. This marked a dramatic change in Indonesia's foreign policy, with Suharto deescalating the confrontation with Malaysia to eventual conclusion in August 1966, and rejoining the UN in September of that same year. Full diplomatic ties with Malaysia were subsequently restored in August 1967 following the signing of a treaty between the two nations in December 1966 (Rickleffs 1993, 290). Ties with China were frozen in 1967 in response to Chinese support of the PKI and the PKI's suspected involvement in the unsuccessful coup attempt. In addition, Indonesia joined with Malaysia, Thailand, Singapore, and the Philippines to create the new regional grouping of ASEAN.

Suharto's drive to restore relations with Western countries, coupled with his anticommunist stance, provided the basis for a symbiotic relationship with the US for the next twenty-five years. Although Indonesia was a nonaligned country, it required considerable levels of foreign investment and aid to generate economic development,

which had been hindered by Sukarno's closed economic policies. The US, in return, saw security benefits through Suharto's strong anticommunist stance in a growing communist environment through Asia. During this period, the US became the principal supplier of military equipment to Indonesia through grant aid and foreign military sales credits. Indonesia acquired considerable quantities of equipment, including aircraft, naval vessels, and armored vehicles (Fredrick and Warden 1992, 1).

A significant event in Indonesia's recent history occurred in 1975 with the invasion of the Portuguese colony of East Timor following the collapse of the government in Lisbon. Suharto's justification for annexation of East Timor was twofold. Firstly, he wanted to prevent the destabilizing effect of a civil conflict between rival pro-independence factions in East Timor that were attempting to seize power in the vacuum left by the collapse of the colonial government. Secondly, he wanted to prevent the pro-Marxist Fretilin party from acceding power. This was to limit any potential communist influence or presence in the region. The US adopted a relatively circumspect approach to Indonesia's actions, which is understandable when considered in the context of Suharto's rationale for the invasion. Indonesia's actions were consistent with the US's desire to contain the spread of communism in Asia, which was particularly important given their recent failure in Vietnam.

The conclusion of the Cold War in 1991 characterized a shift in US attitudes towards Indonesia. A questionable human rights record was no longer tolerable to the US in return for containment, given the preeminent communist threat in the world had diminished with the collapse of the Soviet Union. Criticism by US officials of the political repressiveness of Suharto's regime and pacification of East Timor had



commenced in the late 1980s (Fredrick and Worden 1992, 1). However, the massacre of over 200 East Timorese civilians by the Indonesian military in Dili in November 1991 prompted the Congress to vote to cut military training aid to Indonesia in October 1992, and the Department of State to block the sale of F-5 fighter aircraft to Indonesia from Jordan in 1993. Intermilitary relations were temporarily restored in 1995; however, they were suspended again in 1996 following government involvement in the removal of Megawati Sukarnoputri as the chairman of the Indonesian Democratic Party (Smith 2000, 3).

Although human rights issues dominated the relationship in the early 1990s, there were additional factors during this period that further contributed to the division between the two countries. Firstly, Indonesia attempted to gain jurisdiction over the deepwater straights linking the Pacific and Indian Oceans through archipelagic claims, as well as attempting to promote a no fly zone through the ASEAN alliance. Both claims were strongly opposed by the US and did not come into fruition. Secondly, the US implied the threat of trade sanctions over the issue of the protection of intellectual property, which was viewed by Indonesia as protectionism in US trade policy (Frederick and Worden 1992, 1).

Suharto realized that the almost total reliance on the US for military equipment support, and reliance on the US and Western governments for official aid and private foreign investment to support economic development had made Indonesia vulnerable to influence by Western governments. Consequently, he arranged to purchase fighter aircraft from Russia in the mid 1990s; however, the purchase failed to materialize due to internal financial pressure resulting from the 1997 economic crisis.

The economic crisis prompted a policy shift by the US, with the Clinton administration committing \$3 billion as part of an international effort to rescue the Indonesian economy in late 1997. This commitment was predicated on US concern for preventing spreading economic instability in Asia, given the region's importance as a major export market for US goods, and a fear that further market and economic instability could lead to a violent leadership transition in Jakarta (Chase, Hill and Kennedy 1999, 15). The aid package provided the US with considerable leverage to influence Suharto to conform to conditions stipulated by the International Monetary Fund (IMF) to reform Indonesia's economy. However, Suharto largely chose to ignore these conditions, resulting in US threats to withhold the \$3 billion assistance package.

Suharto finally relinquished power in 1997 amid growing internal pressure for political, social, and economic reform. He was replaced by Vice President B.J. Habibie, who immediately undertook to address the East Timor issue, offering the East Timorese the choice to elect autonomy or independence. A referendum was conducted in the province in August 1999 under UN auspices, with the East Timorese overwhelmingly voting for independence from Jakarta. Violence erupted in the days following the referendum, with pro-Indonesian militia destroying much of the infrastructure in the main population centers and displacing around 200,000 East Timorese from their homes and villages.

The Indonesian military's inability to curb this violence, coupled with its suspected support of the pro-Jakarta militias, prompted widespread international condemnation of Jakarta. This resulted in the deployment of a UN-sanctioned peacekeeping force to restore stability to the province, and the establishment of a UN-

administered transitional authority that would create the conditions for the East Timorese to eventually transition to full independence.

The violence in East Timor in 1999 further galvanized Western opinion, including that of the US, over Indonesia's poor human rights record, and resulted in the Congress passing the Leahy Amendment to the Foreign Operations Appropriations Bill in November 1999. The Amendment contained six provisions as it was originally passed in 1999. The first five provisions required the US president to certify that Indonesia had taken effective action to redress the damage caused by the Indonesian military and pro-Jakarta militias in East Timor before any funds under this Act could be used for training programs for the Indonesian military. The sixth provision called for action to bring to justice members of the Indonesian military against whom there was credible evidence of human rights violations. Three additional provisions were added in 2000. The first provision required the Indonesian military to report audits of the finances of the armed forces to civilian authorities. The second required the Indonesian government to permit UN, international humanitarian, and human rights workers unimpeded access to West Timor, Aceh, West Papua, and Maluku, while the final provision stipulated the release of political detainees (Nguyen and Richter 2003, 190-191). The Leahy Amendment remains in effect, and has resulted in minimal military-to-military contact between the two countries since it was introduced in 1999.

### Assumptions

There are a number of uncertainties that surround the current security and political situation in Indonesia. The research for this thesis will be predicated on Indonesia

maintaining its current form of government and maintaining its current territorial integrity over the period that research for this thesis is conducted.

#### Definitions

The term that requires clarity is “contemporary.” For the purposes of this thesis, contemporary will include the period from 11 September 2001, until 1 December 2003.

#### Limitations

A limitation encountered in conducting research for this thesis is inaccessibility to primary source US Government policy documentation, due to the author being a non-US national. The research will rely on secondary, open source information.

#### Delimitation

It is necessary to state that this thesis will not attempt to validate the success or otherwise of contemporary US policies towards Indonesia. Rather, the scope of research will be limited to identifying US national interests in Indonesia and qualifying whether contemporary US policies correlate to these interests.

#### Significance of the Study

Although considerable literature has been dedicated to the subject of Indonesia’s stability and internal political, economic, and social issues, limited analysis has been conducted on US national interests in Indonesia, and whether contemporary US policy promotes the attainment of these interests. This thesis will address this void, and attempt to promote better understanding of contemporary US policy towards Indonesia, and the issues currently faced by the Bush administration when dealing with this country.

## CHAPTER 2

### LITERATURE REVIEW AND RESEARCH METHODOLOGY

#### Literature Review

A reasonable quantity of literature has been written about US foreign policy and foreign relations with nations within the Southeast Asian region since the end of WWII. Such literature has some relevance, given Indonesia is a major player within this region; however, often the literature focuses on countries such as the Philippines, with which relationships that have proved more enduring from the US perspective, or on countries such as Vietnam, which have been the subject of considerable US focus for a specific time period. Although such literature is useful for obtaining a holistic overview of US policy in the region, it often lacks sufficient depth to be of value for analysis for a thesis that will address the relationship between the US and Indonesia.

Literature that specifically addresses US-Indonesia relations and US foreign policy towards Indonesia is confined to a limited number of books, publications produced by research institutes, such as the Brookings Institute and Rand Corporation, and journal and newspaper articles. For the purpose of this review, the literature will be organized along the lines of the supporting research questions. This will include a review of relevant past works which cover the period up until 11 September, 2001, contemporary works which address the period from 11 September 2001-1 December 2003, and related works which provide context to the thesis in such areas as the influence of Indonesia on regional stability.

### Past Works

The most comprehensive work that captures the history of the first fifty years of the US-Indonesian bilateral relationship is Paul F. Gardner's work *Shared Hopes Separate Fears: Fifty Years of U.S.-Indonesian Relations* (1997). Gardner, a retired U.S. Foreign Services officer who lived and worked in Indonesia for ten years, traces the history of US-Indonesian relations, incorporating the perspectives of participants from both nations through interviews, personal papers, and documents that had been recently declassified at the time of writing this book in the mid 1990s. Gardner focuses on a number of key events in the relationship which are generally centered on the formative years of Sukarno's rule, and the initial period of Suharto's New Order. These key events include the US's role in Indonesia's struggle for independence following WWII, the strains of the Cold War era, covert US support for Indonesian rebels in Sumatra and Sulawesi in the late 1950s, US mediation of the dispute over Western New Guinea in 1962, the communist coup in 1965 and its violent aftermath, and the US's role in organizing a multinational recovery effort for Indonesia's economy after the creation of the New Order in 1968. The book also addresses current issues in the relationship, including economic differences, democratic development, East Timor, and human rights concerns.

Gardner concludes that the US and Indonesia share many common goals and are interacting on a broad range of issues, some of which require considerable compromise by both parties given conflicting interests and the cultural approaches of the two countries. He highlights that the relationship's long-term course is most likely to be

shaped by gradual changes in popular attitude brought about by increased trade, educational exchanges, and communications.

*Indonesia's Transformation and the Stability of South East Asia* by Angel Rabasa and Peter Chalk (2001) is the result of a research project conducted by the Rand Corporation in the Strategy and Doctrine Program of Project Air Force for the US Air Force. It discusses Indonesia's current systematic political transition and suggests a variety of scenarios and outcomes that could eventuate from this transition, ranging from the consolidation of democracy to complete disintegration of the country. Although prepared for the US Air Force, the majority of the publication is dedicated to analysis of Indonesia's transformation, and the consequences of this transformation on regional security. Rabasa and Chalk conclude that influencing Indonesia's transformation is the most critical challenge to US foreign and defense policy in Southeast Asia. Their analysis examines the trends driving Indonesia's transformation, outlines Indonesia's possible strategic future, and analyzes the implications for regional stability and US security interests, identifying options available to the US to respond to these challenges.

They conclude that Indonesia's evolution could drive the Southeast Asian security environment in one of two directions. Successful democratic transformation would be a factor of stability in Southeast Asia, and Indonesia would become the world's largest Muslim democracy, which could have a significant impact on political evolution in Asia and the Muslim world. A stable Southeast Asia would then translate into reduced opportunities for potential Chinese hegemonism and could facilitate the emergence of China as an influential actor without destabilizing the regional balance of power. Conversely, political deterioration or breakdown and the rise of Islamic radicalism would

destabilize the region, making it less inviting for investment and more prone to domination by China. Rabasa and Chalk suggest an immediate path for US policy towards Indonesia, which includes support for Indonesia's stability and territorial integrity, closer military-to-military ties, assistance to prevent further deterioration of defense capabilities, restoration of Indonesia's regional security role, and designing of a permanent solution to promote a constructive relationship between Indonesia and East Timor. This work provides a thorough analysis of the consequences of Indonesian transformation on regional stability in Southeast Asia, and suggests policy direction that the US should adopt to influence transformation to promote a positive outcome for US interests.

*The Pivotal States* is a compilation of case studies edited by Robert Chase, Emily Hill, and Paul Kennedy (1999), which promotes a foreign policy framework for the US that assumes that there is a group of pivotal states whose futures are poised at critical turning points, and whose fates will strongly affect regional, and possibly global security. Chase, Hill, and Kennedy maintain that US policy since WWII has achieved success when dealing with friends or foes among the great powers. However, with the end of the Cold War there is no coherent framework or policy for addressing relations with important or pivotal states outside of the great powers, less occasional humanitarian intervention and trade initiatives. They have identified nine states that fall into the pivotal state category. They are India, Pakistan, Turkey, Egypt, South Africa, Brazil, Algeria, Mexico, and Indonesia. The authors argue that the US should focus its scarce foreign policy resources outside of the great powers such as Russia and China, and major focus



areas, such as the Middle East and North Asia, to influence these key emerging states to ease foreign policy concerns in the future.

The case study that specifically addresses Indonesia as a pivotal state was compiled by John Bresnan in late 1997 and early 1998. Bresnan provides a historical overview of US-Indonesian relations, emphasizing the importance of Indonesia to both stability and security in Southeast Asia and to US interests in the region. He highlights apparent US “amnesia” and ignorance of Indonesia as an issue which has affected the development of policy by the US since the conclusion of WWII, despite the strategic importance of Indonesia to US security and economic interests. Bresnan concludes that the relationship between the two countries is now one of “mutual dependence,” following the financial crisis in 1997, where both countries realized that they could no longer rely on the assumption that they did not need to take the other into account (1999, 39).

*Transition Indonesia: International Responses* is a report that was produced by the East Asian Institute of Colombia University following a conference in May 2001, that involved thirty analysts from the US, Japan, Australia, and Indonesia as part of Colombia University’s Transition Indonesia project. The conference occurred when Indonesia was in the midst of political turmoil, with the president of the time, Abdurrahman Wahid, locked in a bitter struggle with other political leaders over his continuing mandate to lead the government (2001, 2). The first part of the report addresses possible consequences of this political instability with regard to internal issues within the Indonesian political spectrum, which is of little relevance to this thesis. However, the latter part of the report provides a useful insight into the concerns and the consequences of continued political instability in Jakarta and its effect on regional stability. It also addressed US policy issues

towards Indonesia and provides recommendations for a possible policy framework for the Bush administration, which had recently assumed office at the time the conference was convened.

The report identifies that the promotion of stability and development in Southeast Asia cannot occur without stability in Indonesia, and concludes that Southeast Asia is more volatile today than at any time since the Vietnam War (2001, 14). From a US policy perspective, the report recommends an outline framework that addresses three key issues, namely supporting Indonesia's territorial integrity in the face of a number of separatist movements, resuming military-to-military ties between the two countries, and addressing Indonesia's ongoing economic instability. The report concludes that the US needs to adopt a more "persuasive approach" as opposed to "hectoring" Indonesia, particularly with regard to human rights and economic issues, and adopt a restrained posture as the country continues democratic transition.

*The Politics of Post-Suharto Indonesia*, which is co-edited by Adam Schwarz and Jonathan Paris (1999), is the culmination of a Council on Foreign Relations Study Group on Indonesia that met during the first half of 1998 to analyze the direction of Indonesian politics, economic policies, social and ethnic relations, and foreign policy in the post-Suharto era. The study group was organized in 1997 when Suharto was still firmly in power as Indonesia's President; however, as events transpired, the study group's meetings and analysis occurred "during one of the most tumultuous periods in Indonesian history," (1999, vii) with the Asian economic crisis and Suharto's subsequent resignation as President following thirty-two years of rule.

Schwartz and Paris' work is a compilation of essays produced by members of the study group aimed at addressing the void of research available on Indonesia to US policy makers, practitioners and scholars. The essays address areas such as the unexpected failure of Suharto's leadership following the 1997 Asian economic crisis, the influence of Islam in the post-Suharto era, the influence of the military in Indonesian politics, and US policy toward Indonesia following the 1997 economic crisis. From the perspective of this thesis, John Bresnan's essay on US policy towards Indonesia and analysis of the International Monetary Fund's \$43 billion bail-out package for Indonesia holds most relevance. Bresnan is critical of the Clinton administration for failing to develop an overall strategy for coping with the Asian financial crisis, which he apporions to administration's apprehensive approach towards Indonesia following controversial fund-raising overtures by Clinton in the lead-up to the 1996 Presidential election, preoccupation with the investigation by Kenneth Starr, and the fact that the Asian crisis had not materially affected the US economy (1999, 14). Bresnan concludes that the US has a major stake in Indonesia's experiment with political reform and highlights that the US will hold minimal leverage to influence developments in Indonesia if it fails to assist with the recovery of the Indonesian economy (1999, 14).

#### Contemporary Works

*The United States and Southeast Asia: A Policy Agenda for the New Administration* is a report compiled by an independent task force on United States and Southeast Asia relations, sponsored by the Council of Foreign Relations in New York and chaired by Former US Senator Robert Kerry. It recommends an agenda for the Bush administration for US policy in this region and highlights how the US has traditionally

relegated Southeast Asia to the backwaters of US foreign policy to its own detriment. The report recommends a more focused and integrated policy framework towards the region, and argues that US leadership and enlightened action is required to assist in stabilizing the region, expand economic opportunities, and assist with the democratic transition of states such as Indonesia and Vietnam. Conversely, the report highlights that an absence of US presence and influence in the region could see the deterioration in economic and political conditions in some countries in the region, which would be not be conducive to the security and economic interests of the US.

Although the report focuses on a generic policy framework for the Southeast Asia region, it does provide specific reference to US policy towards Indonesia, recognizing the pivotal role that Indonesia has in the region given its geographic disposition and demographic composition. Of note is the assessment by the task force that the “outcome of Indonesia’s efforts to meet the daunting and mutually reinforcing long-term challenges of revitalizing its national economy and fashioning democratic institutions will have immense regional and global consequences,” and that the US must develop more effective methods to influence Indonesia’s transformation in concert with other key partners, such as Japan (2001, 3). The report proposes that the US should develop “enlightened” policies in cooperation with Japan to restructure Indonesia’s considerable foreign debt, while also finding ways to renew relations with the Indonesian military.

Anthony Smith’s article *Reluctant Partner: Indonesia’s response to US Security Policies*, which was published in March 2003, provides an assessment of Indonesia’s response to contemporary US security policy and, in particular, the global war on terrorism and US policy towards Iraq. Smith highlights how Indonesia and Southeast

Asia have gained prominence for US policymakers since the 11 September terrorist attacks on New York and Washington, and the Bali attacks in October 2002, but that relations between the two countries have become more difficult given Indonesia's reluctance to support US military action in both Afghanistan and Iraq. He provides an assessment of Indonesia's contemporary foreign policy stance as displaying similarities to the "free and active" policy that was adopted by the Sukarno government following independence in 1945, which will result in a greater degree of distance from the US and other major foreign powers. Smith also addresses the current frustration of Indonesian authorities at the US refusal to classify the separatist movement in the province of Aceh as a recognized terrorist group, given that the group does not pose a direct threat to US interests. Smith concludes that the US will have to live with the differences of opinion that have developed between the two nations, while continuing to support Indonesia's transformation and national cohesion, and attempting to resume military-to-military relations within current constraints that have been mandated by the Congress.

Anthony Smith produced a further article in May 2003, titled *US-Indonesia Relations: Searching for Cooperation in the War against Terrorism*, which elaborates on the above-mentioned article. Here Smith identifies that the US-Indonesia relationship has been complicated by Indonesian domestic politics and past problems in the bilateral relationship between the two countries. He emphasizes the deep distrust that exists within both the Indonesian government and population towards US foreign policy, fueled by events such as US support for East Timor's independence in 1999, and a perception that the US-led war on terror is a war to weaken Islam. Smith assesses that any form of criticism of the Megawati government by the US at the current time would be

counterproductive to US-Indonesia relations, given that Megawati would be forced to save political face domestically by demonstrating that she is not prone to the influence or caving to the opinions of foreign powers. He concludes that the Bali blast has prompted the Indonesian government to be “more attentive” towards the issue of countering terrorism, and that peer pressure from fellow ASEAN member states has resulted in Indonesia becoming a signatory to a number of antiterrorist initiatives in the region.

*The Report of the National Commission on US-Indonesian Relations*, released in late 2003, is the most recent work at the time of writing that addresses contemporary issues in US policy towards Indonesia. The National Commission is composed of ten prominent Americans, including former foreign policy professionals and leading Indonesian specialists, representing a diverse range of backgrounds, interests, and opinions. These individuals include the Commission Co-Chairman and former US Secretary of State, George P. Shultz, Vice Chairman and former US Ambassador to Jakarta, Edward Masters, and former US Pacific Commander, Admiral Dennis Blair. The commission met in September 2002 to address what it categorized as “evident and pressing issues” in Indonesia, namely terrorist networks, political transformation, and economic issues. The purpose of the Commission’s findings is to provide suggestions for both the US Congress and the administration on how to move toward a relationship that will better serve the interest of both countries over the longer term. The report highlights that Indonesia is “one of the least well-known or understood countries in the United States, and that it would be enormously beneficial for the US-Indonesia bilateral relationship, which has become strained in recent years, to move towards a more balanced footing” (2003, 7).

The report recommends a formal “Partnership for Human Resource Development,” with a view to developing joint programs between the two countries to promote effective democracy, sustainable development, and the rule of law in Indonesia. The report recommends that the US address development and reform in four critical areas, namely education, democratization, economic growth, and security, while continuing existing programs that focus on emergency relief and improved health conditions. The report concludes that Indonesia is currently in a critical juncture in its democratic transition and economic recovery, presenting an opportune time for the US to rethink its approach to Indonesia and enter a partnership to strengthen democracy, reduce problems that lead to radicalism, and improve the bilateral relationship between the two countries (2003, 10).

*Indonesia Matters: Diversity, Unity, and Stability in Fragile Times* edited by Thang D. Nguyen and Frank-Jurgen Richter (2003), is a compilation of fifteen essays that address Indonesia’s political, economic, and social changes since the resignation of Suharto in 1998. Of particular relevance to this thesis is the section on foreign relations, which contains an essay by the former Secretary-General of ASEAN, Rodolfo C. Severino, on Indonesia’s leadership role within ASEAN, and an essay on US-Indonesia relations by Edward Masters, a former US Ambassador to Jakarta and founder of the US-Indonesia Society (USINDO).

Severino provides a historical perspective on Indonesia’s leadership and positive influence on the development of ASEAN since the formation of the organization in 1967. He emphasizes how Indonesia has influenced the region in a positive manner through the impact of its domestic and foreign policies, and judicious application of its diplomatic

skills (2003, 177). Severino notes how Indonesia's approach towards the development of a market orientated economy has promoted economic reform throughout the region, while its contributions to regional stability have often promoted important dialogue that has led to eventual peace settlements, as was the case in Cambodia in 1991 (2003, 177). Severino concludes that Indonesia's continued leadership role in ASEAN remains critical to the well-being of the organization, but uncertain given the economic and political situation in the country.

Edward Masters' essay commences with a brief historical overview of US-Indonesia relations, highlighting how a lack of effective communication between Washington and Jakarta has plagued the relationship over the past fifty years. He then proceeds to provide an analysis of the US-Indonesian relationship, focusing on the period following the resignation of Suharto in 1998 up until the end of 2002. Here Masters' emphasizes the impact of the of the tragedy in East Timor in 1999 on the relationship between Jakarta and Washington, which ultimately resulted in the passing of the Leahy Amendment by the Congress. This has postponed military-military contact between the two countries until Indonesia satisfies a number of criteria laid down by the amendment to address human rights abuses committed in the former Indonesian province. He pays particular attention to the presidency of Abdurrahman Wahid, demonstrating how the relationship between the Clinton administration and Wahid deteriorated after a promising start, due to Indonesia's perception that the US was placing undue pressure on, and interfering in Indonesia's internal affairs. Masters' concludes by providing an analysis of the initial period of the Megawati presidency, highlighting how the security interests of the two countries have converged following the realization in Indonesia that a credible



terrorist threat exists within its borders in the wake of the Bali attacks in October 2002. He emphasizes Washington's need to be patient with Indonesia and not back Megawati into a corner where she has to choose between the West and Islam. At the same time, Indonesia needs to address the protection of foreigners from murder and harassment following the murder of two Americans employed by a US company in Papua in 2003. Masters' assessment is that the longer term trend points to closer cooperation between the two countries.

*George W. Bush and Asia: A Midterm Assessment* (2002) is a compilation of ten essays co-edited by Robert M. Hathaway and Wilson Lee of the Asia Program at the Woodrow Wilson International Center for Scholars in Washington, D.C. The essays are the result of a conference held at the Wilson center on 11 December 2002, to review the Bush administration's Asia policy at the mid point in the presidential term. Specifically, the conference analyzed the administration's vision of Asia, its conceptualization of US interests in the region and the US role in Asia, defining characteristics of the administration's policy to date, and the success or otherwise of this policy. In addition, the conference also addressed the influence of the events of 11 September 2001 on the administration's approach to the region.

Two essays are of relevance to this thesis. The first is *U.S.-East Asia Policy: Three Aspects* (2002) by James A. Kelly, the current Assistant Secretary of State for East Asian and Pacific Affairs. In this essay, Kelly describes the Bush administration's "Asiaview" (sic) as an intertwining of the US's traditional policy priorities in the region, which include regional security and stability, democratization, free markets, and human rights, with new challenges such as countering terrorism. His essay focuses on the "three

salient issues” for the administration’s Asia policy; terrorism, ASEAN, and the Korean Peninsula. Kelly emphasizes the administration’s policy achievements within each of these areas, highlighting initiatives such as the US-ASEAN Joint Declaration on Countering Terrorism, which was signed in August 2002, and the Enterprise for ASEAN Initiative (EAI) and ASEAN Cooperation Plan (ACP), which respectively address US development and economic cooperation with ASEAN. Although Kelly does not provide specific reference to the administration’s policy towards Indonesia, the essay does provide a succinct overview of the administration’s priorities for the region.

The second essay is *The Bush Administration in Southeast Asia: Two Regions? Two Policies?* (2002) by Catharin Dalpino. In this essay, Dalpino provides an analysis of the Bush administration’s policy towards Southeast Asia, specifically focusing on US antiterrorism policy in the region and engagement of Southeast Asia’s Muslim population. Dalpino highlights how the events of 11 September 2001 have prompted the Bush administration into a more extensive engagement in Southeast Asia than the Clinton administration, which in the long term could promote collateral benefits such as stronger regional institutions and more effective governance. Despite this observation, Dalpino concludes that the administration’s current policies lack durability, and are more of a stopgap measure that over emphasize antiterrorism at the expense of addressing political and economic development, which can impede the causes of terrorism.

#### Related Works

*Disintegrating Indonesia? Implications for Regional Security* by Tim Huxley (2002) provides an assessment of Indonesia’s future as a coherent nation-state, given ongoing economic difficulties, social distress, and political instability. Huxley argues,

that although the current separatist movement struggles for independence in Aceh and Papua are unlikely to succeed in the foreseeable future, Indonesia is faced with a raft of other issues and problems that threaten to undermine Jakarta's control of the country. These additional issues include violent communal and ethnic disputes in the outlying provinces of Maluku, Central Sulawesi, and Kalimantan, and continued tension between Islamic and secular political forces as the country undergoes democratic transformation. Huxley highlights how international concern has been prompted by an array of growing security threats originating in Indonesia, including secessionist movements, Islamic terrorism, piracy, environmental dangers, and the movement of asylum-seekers through the country. He concludes that concerned governments should assist Indonesia in its fragile democratic reform process in order to contain the security implications of Indonesia's "protracted crisis," and emphasizes the importance of assisting Jakarta to manage its outstanding foreign debt as a priority for the international community.

### Methodology

The study of this research topic requires an understanding of the relationship between the US and Indonesia, the enduring interests that the US has developed and maintained in this region over the past 100 years, and key events that have shaped the relationship between these two countries. The analysis begins by laying out the history of US-Indonesian relations up until the end of the Clinton administration's second term in office, which concluded in January 2001. This provides necessary historical context in which to consider the research question, while also identifying key events that shaped US policy, and the policy direction that was adopted by the US following the conclusion of

the Cold War and departure from containment doctrine. This analysis has been provided in chapter 1 of the thesis.

The analysis next looks at contemporary US policy towards Indonesia, which is the main focus of the research. Here the analysis commences by qualifying what constitutes contemporary US national interests in Indonesia by analyzing relevant National Security Strategies within the period defined as contemporary in chapter 1, and analyzing policy statements, testimonies by key administration officials, and relevant literature. Interests which are identified at this stage of the analysis are categorized under the strategic and security, economic, and political interests. The conclusion of this stage of the analysis satisfies the first subordinate research question.

The next stage is to addresses what constitutes contemporary US policy towards Indonesia, against these three identified interest categories. Here policy statements, testimonies, media releases, and speeches by key members of the Bush administration are analyzed against the three previously identified interest categories. An additional US interest of humanitarian factors is also identified at this point based on the weight of policy that is focused in this area. The conclusion of this stage of the analysis satisfies the second subordinate question, and permits conclusions to be drawn that answer the primary research question. These conclusions also allow a comparison between the policy approaches of the Clinton administration and those of the Bush administration, given the comparative analysis that was conducted between the two National Security Strategies under the first subordinate question. A diagram outlining the thesis methodology is depicted in figure 1.

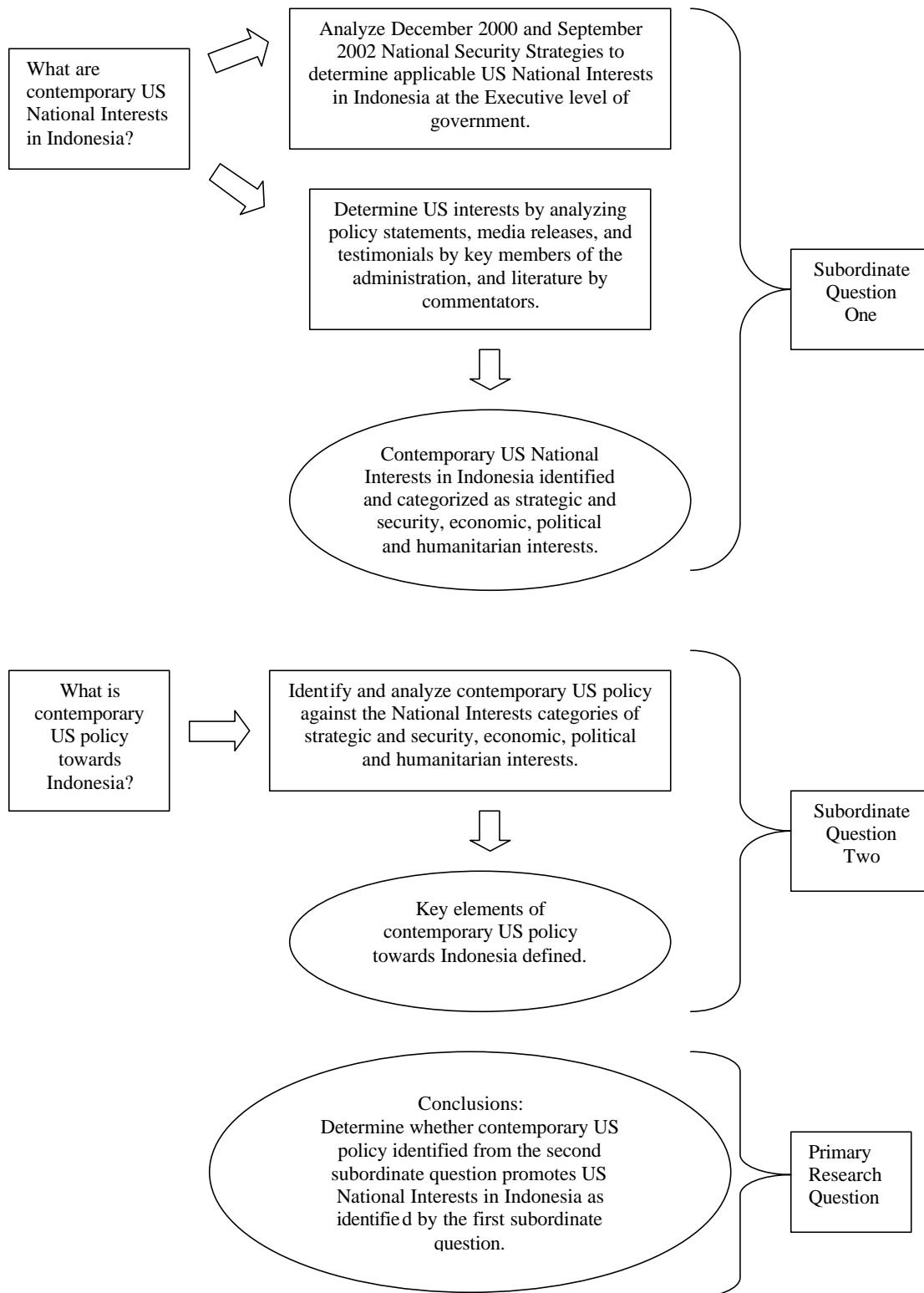


Figure 1. Flow Diagram of Thesis Methodology

## CHAPTER 3

### ANALYSIS

Indonesia is a very important country. It's important because of its strategic location, it's important because of the nature of its population. It's important that this country succeed, and we look forward to working with Indonesia. (2003a)

George W. Bush

#### Introduction

The purpose of chapter 3 is to analyze data that have been collected as part of the research process and to answer the two subordinate questions using the methodology described in the latter part of chapter 2. The first part of this chapter will define US national interests in Indonesia from a contemporary perspective, using the definition of “contemporary” defined in chapter 1 to delineate the timeframe to be analyzed. The second part will analyze whether contemporary US policy under the Bush administration promotes the interests defined under the first subordinate question.

#### What are US National Interests in Indonesia?

The national interests of a particular nation towards another nation or geographic region can be difficult to determine. Often such interests are not clearly articulated in key national security and foreign policy documentation, with policy makers preferring to provide overarching themes or values as a basis from which more specific policy and programs are developed. Joseph Nye highlights that although states act in their national interests, it is often difficult to rationalize, given the difficulty in defining these interests (2003, 48). Defining contemporary US interests in Indonesia is also relatively difficult, given that no prescriptive or consolidated account has been identified in the research

process that would simplify the designation of these interests. Therefore, a wider analysis of relevant National Security Strategy (NSS), statements by key personalities in the current administration, and an analysis of what could be considered traditional and enduring US interests in Indonesia will be addressed to satisfy the first subordinate question.

The NSS of December 2000, which was released by the Clinton administration just prior to his departure from office, provides a definition of US national interests in terms of values-based ideals that form the basis of a wider strategy of “strategic engagement.” These interests are national security, prosperity, and upholding the values of freedom. Although generic themes, they provide a framework from which further analysis can be conducted to determine likely US interests in Indonesia. Conversely, the NSS of September 2002 has avoided defining US national interests even in generic terms, relying instead on promoting a number of key tenets that are based on enduring US values that originate from the US Constitution.

#### 2000 National Security Strategy

The Clinton administration’s December 2000 NSS promoted a strategy of engagement guided by the principles of protecting US national interests and advancing US values. The broad definition of US national interests defined in this strategy was as follows: “Our national interests are wide-ranging. They cover those requirements essential to the survival and well being of our Nation as well as the desire to see us, and others, abide by the principles such as the rule of law upon which our republic was founded” (The White House 2000, 4). This strategy further describes the division of these national interests into three categories: vital, important, and humanitarian. Vital interests

define those interests that are directly connected to “the survival, safety, and vitality” of the nation and the “physical security of our territory and our allies.” Important interests describe those interests that “affect national well being or that of the world in which we live,” while humanitarian interests address areas such as human rights and support to emerging democracies (The White House 2000, 4).

This document does not provide an elaborate definition of US national interests in Indonesia, instead referring to a regional strategy that addresses the East Asia and Pacific region. This strategy emphasizes the importance of a stable and prosperous East Asia and Pacific as vital to the US’s own national security interests (The White House 2000, 48). However, Indonesia as an individual nation is unlikely to be considered as a vital US interest under the definition provided in this strategy given that it is not an alliance partner with the US due to its own long-standing doctrine of nonalignment.

The regional strategy subsequently identifies “three pillars,” namely enhancing security, promoting prosperity, and promoting human rights and democracy (The White House 2000, 48). From a security perspective, the strategy identifies the US interests in Southeast Asia as centering on “developing regional, multilateral, and bilateral security and economic relationships that assist in conflict prevention and resolution” (The White House 2000, 51). No reference is made to Indonesia specifically with regard to security relationships, with the strategy focusing instead on engagement and cooperation with the collective organizations of ASEAN and the Asian Regional Forum, both of which Indonesia is a prominent member.

Indonesia does receive specific mention under the theme of promoting prosperity. This reference is logical, given that during the time period that the strategy was



formulated Indonesia was entangled with internal political turmoil while struggling to recover from the 1997 economic crisis. The strategy comments on the slow process of economic reform, corporate restructuring, and lack of central government reform to privatize the banking sector (The White House 2000, 53). A more in-depth analysis of US economic interests in Indonesia will be addressed later; however, economic recovery remains a key US interest for two reasons. The first is the symbiotic economic relationship between the two countries with regard to trade and investment, while the second reason relates to the \$3 billion bail-out package initiated by the Clinton administration in 1997 to rescue the Indonesian economy.

With regard to the promotion of human rights and democracy, Indonesia receives specific mention within the strategy. This reference highlights the importance of the historic 1999 democratic elections and the significance of Indonesia becoming the third largest democracy in the world. The strategy also refers to assistance packages to promote the development of government institutions to support democratic reform and promote the rule of law (The White House 2000, 53). Of note, however, is the absence of any reference to human rights issues that resulted from the actions of pro-Indonesian militias and the Indonesian military in East Timor during the August 1999 referendum for independence, ultimately leading to the Leahy Amendment, which cancelled military-to-military ties between the two countries.

#### 2002 National Security Strategy

The NSS released by the Bush administration in September 2002 is the first strategy that has been formulated by the current administration. This strategy is heavily influenced by the events surrounding the terrorist attacks on New York and Washington,

D.C., on 11 September 2001 and by the ongoing US-led global war on terrorism. A concise overview of the key components of the strategy is defined by the following quotation: “The US national security strategy will be based on a distinctly American internationalism that reflects the union of our values and our national interests. The aim of this strategy is to help make the world not just safer but better. Our goals on the path to progress are clear: political and economic freedom, peaceful relations with other states, and respect for human dignity” (The White House 2002, 1). The overview then elaborates on how the US will achieve these identified goals, citing eight key elements or tenets to the strategy:

1. Champion aspirations for human dignity;
2. Strengthen alliances to defeat global terrorism and work to prevent attacks against us and our friends;
3. Work with others to defuse regional conflicts;
4. Prevent our enemies from threatening us, our allies, and our friends, with weapons of mass destruction;
5. Ignite a new era of global economic growth through free markets and free trade;
6. Expand the circle of development by opening societies and building the infrastructure of democracy;
7. Develop agendas for cooperative action with other main centers of global power; and
8. Transform America’s national security institutions to meet the challenges and opportunities of the twenty-first century (The White House 2002, 1-2).

Although the strategy states that it is a “union between US values and national interests”(The White House 2002, 1), only the values are clearly defined. However, an analysis of the eight tenets that are identified to achieve the stated aims and goals

provides some direction as to what the Bush administration views as important US interests. These eight tenets are each devoted a separate section within the strategy where additional explanation is provided on the key elements of each particular tenet, with an action statement provided at the end of each section describing what the US will do to achieve its goals in each particular area. Each of these tenets will be addressed to ascertain its relevance to Indonesia and define likely US interests in this country.

The first tenet of championing aspirations for human dignity has relevance to Indonesia. The strategy outlines the importance for the respect for the rule of law, limits on absolute power of the state, free speech, freedom of worship, equal justice, respect for women, religious and ethnic tolerance, and respect for private property (The White House 2002, 5). These elements are all applicable to the contemporary US perception of Indonesia, based on events that occurred in the past under Suharto's leadership, such as his use of the military to remove Megawati from her position as the leader of the opposition Democratic Party, or are ongoing since Indonesia commenced its transformation to a democracy following the resignation of Suharto in 1997. This deduction is reinforced by the fact that ethnic tolerance and respect for the rule of law are specifically mentioned as areas where Indonesia has progressed under the tenet of "Work with Others to Defuse Regional Conflicts" (The White House 2002, 10). A further explanation of this reference will be addressed in the following paragraph. Issues relating to the rule of law and justice have been a focus of the US, particularly regarding the atrocities committed by pro-Jakarta militia in East Timor in 1999 and the subsequent trials of both militia and Indonesian military leaders who were present in the province at the time. Religious and ethnic tolerance will remain a focus, purely due to the diverse

demographic composition of Indonesia and recent incidents of ethnic and religious violence in a number of provinces of the archipelago. Finally, the absolute power of the state maintains relevance due to suppression of current separatist movements by the Indonesian military in the provinces of Aceh and Papua, with Aceh subject to ongoing martial law since July 2003.

The second tenet, which addresses the war on terrorism, has particular relevance given the existence of the Jemiah Ismailia terrorist group, which has been linked Al Qaeda, in Indonesia. Jemiah Ismailia is widely believed to have committed both the Bali and Jakarta Marriot Hotel attacks, which are two of the most significant terrorist attacks to occur since 11 September 2001. The wider description of this tenet does not make any specific reference to these attacks or the Jemiah Ismailia group itself, but does describe how the US proposes to “disrupt and destroy” terrorist organizations across the globe, and the instruments of power that it will employ to achieve this goal (The White House 2002, 5).

As previously identified, Indonesia receives specific mention under the third tenet of defusing regional conflict. “Indonesia took courageous steps to create a working democracy and respect for the rule of law. By tolerating ethnic minorities, respecting the rule of law, and accepting open markets, Indonesia may be able to employ the engine of opportunity that has helped lift its neighbors out of poverty and desperation. It is this initiative that has allowed US assistance to make a difference” (The White House 2002, 10). Of interest is that the majority of the issues referred to in this statement are more applicable to the first tenet of championing the aspirations of human dignity. However, the inclusion of this statement is significant when considered in the context of the other

regional stability issues that are also addressed under this tenet. In addition, countries that receive specific mention are Israel and Palestine, India and Pakistan, Colombia, and the continent of Africa. This statement indicates the importance the US places on Indonesia's successful transformation to democracy, and its ability to resolve ongoing internal instability issues as key to stability in the Southeast Asian region.

The fourth tenet, which refers to the prevention of enemies threatening the US, its allies, and friends with weapons of mass destruction, primarily addresses those states, such as Iraq and North Korea, that were identified by President Bush as the "axis of evil" in his January 2002 State of the Union address (The White House 2002). This tenet has little relevance to Indonesia, particularly given that Indonesia is a supporter of the Comprehensive Test Ban Treaty and supported a consensus decision in 1995 that extended indefinitely the Treaty on the Non-Proliferation of Nuclear Weapons (Morse 2000,1).

The fifth tenet addresses the ignition of a new era of global economic growth through free markets and free trade. This tenet is also relevant to Indonesia, particularly given that it has been the country slowest to recover from the 1997 Asian economic crisis, and remains subject to an International Monetary Fund extended arrangement to provide finance to service debt in return for the reform of economic policy and institutions. The strategy under this tenet refers to the improvement of stability in emerging markets through the flow of international investment capital to expand the productive potential of these economies, raise living standards, and reduce poverty. This is relevant to Indonesia, given that it is estimated that around 17 percent of the population

live in poverty, based on the World Bank poverty line of one dollar per day (Asian Development Bank 2002, 1).

The sixth tenet of expanding the circle of development by opening societies and building the infrastructure of democracy, identifies similar themes to the first and third tenets. However, this tenet expands on these themes by highlighting how the US will foster economic development to achieve sustained growth and poverty reduction in developing nations. The seventh tenet, developing agendas for cooperative action with the other main centers of global power, primarily addresses key collective alliances, such as NATO, and the US's relationship with major regional powers, such as Russia and China. However, reference is made to the importance of the US relationship with ASEAN to "develop a mix of regional and bilateral strategies to manage change in the Asia region" (The White House 2002, 26). This is relevant to Indonesia, given its prominent role within this organization. Finally, the eighth tenet is not addressed as it relates primarily to transformation of US national security institutions.

In summary, six of the eight tenets of the 2002 NSS have relevance to Indonesia and provide a reasonable indication as to what the US defines as generic interests in this country. Consistent themes recur between these six tenets and are best summarized by the reference contained under the third tenet, namely the development of a working democracy, respect for the rule of law, religious and ethnic tolerance, and acceptance of open markets. Also of relevance is the defeat of global terrorism, which will be identified at a later stage in this analysis as the pre-eminent interest for the US in Indonesia.

### Analysis of US Interests in Indonesia

The analysis will now elaborate on the themes and tenets identified in the two National Security Strategies by defining US interests in Indonesia from an analysis of statements by key officials in the Bush administration and the Department of State, and articles and reviews by scholars and commentators. Dr Anthony Smith from the Asia Pacific Center for Security Studies in Hawaii has highlighted three factors that have traditionally featured as key US interests in Indonesia. The first factor is Indonesia's critical location astride the Straights of Malacca, which are vital sea-lanes for transport and communication between the Pacific and Indian Oceans. The second factor is Indonesia's population and territorial size, both of which are the largest in Southeast Asia, making it the cornerstone of the ASEAN. The third and final factor was Indonesia's partnership with the US during the Cold War to check communist influence in Southeast Asia (2003a, 2).

The first two factors of geography and demographics are constant, and they will remain enduring interests for the US in Indonesia, provided the US does not revert to an isolationist-based strategy. The third factor disappeared with the demise of communism over ten years ago; however, it has been replaced by a new security threat in the form of globally affiliated terrorist networks, which will ensure that Indonesia will remain a focal point in the region for the US from a security perspective. This part of the analysis will categorize US interests under strategic and security, economic, and political interests.

### Strategic and Security Interests

From a strategic perspective, Indonesia's geographic disposition between the Indian and Pacific Oceans and its dominance of the vital sea-lanes that connect these

oceans remain the most significant and enduring interest that the US has in Indonesia (Haseman 2001, 2). These sea-lanes are critical to the economic viability of the economies of the Asia Pacific region, which includes the US and key alliance partners, such as Japan, South Korea, Taiwan, and Australia, and emerging powers, such as China. As an example, around one-half of the world's merchant fleet capacity passes through straits that have Indonesian territory on either one or both shores (National Commission on US-Indonesian Relations 2003, 9). Part of this merchant fleet cargo includes approximately 80 percent of Japan's, and 70 percent of South Korea's oil supply from the Persian Gulf (Przystup and Dori, 1998), which is essential to the economic stability of these countries.

The sea-lanes also provide a vital line of communication essential to the projection of US military power in the Indian Ocean, East Africa, and Persian Gulf regions from base locations on the West Coast of the US, Hawaii, and forward-basing locations in Asia. Their importance can be emphasized by the fact that the preponderance of recent and ongoing US military operations have been focused in the Persian Gulf and Central Asian regions.

Closely linked to US strategic interests is the influence Indonesia has on the stability of the wider Southeast Asian region by virtue of its large and ethnically diverse population base and geographic size. Its population of around 235 million people includes over 300 separate ethnic and linguistic groups and represents over 40 percent of Southeast Asia's total population, while its geography incorporates over 17,000 islands covering approximately two-million square kilometers (Central Intelligence Agency 2003, 1-2).



The maintenance of territorial integrity and national unity in the face of the demographic and geographic diversity has been an ongoing challenge to successive Indonesian governments since independence in 1947. Suharto's military-dominated New Order largely managed to keep various separatists movements in check between 1965 and 1997, with prioritization to national cohesion and economic development over political freedom (Huxley 2002, 1). However, the demise of Suharto in 1997 and the increased political freedom brought about by political transformation prompted an emergence of separatist groups seeking either greater levels of power and autonomy from Jakarta, or full independence, particularly in the resource rich provinces of Aceh and Papua, and the former Portuguese colony of East Timor.

East Timor eventually achieved independence in May 2002, with stability restored with the assistance of a United Nations-mandated peacekeeping force, which has been present since September 1999. However, instability has continued to plague the provinces of Aceh and Papua, with Aceh currently subject to martial law following the breakdown of peace talks between the Free Aceh Movement and Jakarta in April 2003. In addition, communal tensions, predominantly between Muslims and Christians in the outer lying provinces of Maluku, Central Sulawesi, and Kalimantan, have resulted in intermittent violence that has often escalated beyond the control of central government authorities, while extremist Islamic groups have proliferated since 1998 due to the removal of political constraints, widespread poverty, growing anti-Western sentiment, and sponsorship from disgruntled military officers (Huxley 2002, 10-11).

The effects of an unstable Indonesia on the wider region encompasses different forms. Firstly, if Aceh manages to withdraw from Indonesia and achieve one of its

primary goals of implementing Shariah (Islamic) Law, it is likely to embolden Islamic separatist movements in the Philippines and Malaysia that have similar aspirations (Dalpino 2001a, 1). This could potentially challenge the territorial integrity and political stability of these two countries. Additionally, escalating internal conflict could prompt a potential refugee crisis for neighboring countries such as Singapore and Malaysia, given the huge Indonesian population base.

The influence of Indonesia's internal stability on the stability of the wider Southeast Asian region is acknowledged by the current administration. Ralph Boyce, the US Ambassador to Jakarta and former Deputy Assistant Secretary of State for East Asian and Pacific Affairs, stated before a Congressional committee in 2001 that the fragmentation of Indonesia would be a disaster for regional stability, while growing social disarray in Indonesia could offer a regional entrée to Islamic radicalism and possibly international terrorism (Boyce 2001). Boyce's assertion is reinforced by Singaporean Prime Minister Goh Chok Tong's statement that "the facts of geography have not changed: Indonesia, a vast archipelago, still sits astride vital sea-lanes. An unstable Indonesia will not be just an East Asian but a global problem" (Hathaway and Lee 2002, 120).

#### Global War on Terrorism

Al Qaeda's attacks on New York and Washington, D.C., on 11 September 2001 had a dramatic effect on how the US now views the world and added a "new dimension to the US-Indonesia relationship" (Smith 2003b, 2). The US-led global war on terrorism now dominates US interests and foreign policy priorities and has reinvigorated US relations with Southeast Asian nations, energizing "America's Asian alliances" (The

White House 2002, 26). Assistant Secretary James Kelly reinforced this assessment with his statement that “long a preeminent policy concern, counterterrorism, or CT as we now refer to it, leaped to the top of the list of policy priorities after September 11” (Kelly 2002). The global war on terror has come to dominate the relationship between Jakarta and Washington, particularly from Washington’s perspective (Smith 2003b, 7). This is due to Indonesia experiencing two of the most significant terrorist attacks since 11 September 2001, and the important influential role Indonesia holds within the global Muslim community as the world’s most populous Muslim nation.

The attacks against Western targets in Bali and Jakarta were carried out by the Al-Qaeda-linked Jemaah Islamiyah (Islamic Community) group, whose goal is the establishment of a Southeast Asian superstate encompassing Indonesia, Malaysia Brunei, and the Muslim areas of Thailand and the Philippines. Ambassador Ralph Boyce has publicly stated that Al Qaeda is present in Indonesia (National Commission of US-Indonesian Relations 2003, 31), and indications from the arrest of suspects in the Bali bombing indicate that Boyce’s assertion is valid. Southeast Asia is now a second front for the global war on terror (Kelly 2002), and antiterrorism has become the preeminent interest of the current US administration’s interest in Indonesia.

In addition to the challenges of combating terrorism, piracy has emerged as a threat to regional stability and economic prosperity. This has drawn the attention of the current US administration. Piracy has occurred in the key shipping lanes within Indonesia’s territorial waters and Indonesian ports. These attacks range from robberies of ships while in port, to hijacking of ocean-going vessels and cargo containers (Rabassa and Chalk 2001, 6). During the three-year period between 1997 and 1999, 277 attacks

occurred in Indonesian waters, representing over one-third of the attacks recorded around the world during this period and 76 percent of incidents reported in Southeast Asia (Rabassa and Chalk 2001, 6-7). The current administration has stated that “anti-piracy and policing the archipelago’s economic zone waters” are within “specific US interests” (Boyce 2001). Although these interests are not specifically defined, it is apparent that they relate to security and economic interests, and to the potential for terrorist organizations to be involved in piracy-related activities.

The final security interest that the US has in Indonesia is related to the maintenance of the balance of power within Southeast Asia to counter the influence of China and, to a lesser extent, India in the region. John Bresnan highlights that “the principal interest the US has had in East Asia and the Pacific, as our behavior over the past sixty years attests, is that no other power or concert of powers should dominate the region” (Chase, Hill, and Kennedy 1999, 30). It is widely acknowledged by scholars and commentators that China is the nation that is most likely to fill the role of global hegemon, given its potential economic and military influence in the region. India, on the other hand, has increased its profile and influence in the region with its “Look East” policy, creating the potential for a Sino-Indian rivalry centered on Southeast Asia (Council on Foreign Relations 2001, 19). India has signed a recent defense agreement with Indonesia, which could lead to the sale of military equipment, particularly if the restrictions imposed by the Leahy Amendment continue to prevent the sale of US-produced equipment (East Asian Institute of Colombia University 2001, 13).

China’s interest in Indonesia and the wider Southeast Asian region is primarily based on historical claims to territory in the South China Sea, and its need for energy

resources that are either produced in Indonesia, or imported from the Middle East and transit through Indonesian waters. The potential also exists for China to become more involved in Indonesia in the wake of a weakened economy and political instability brought about by the 1997 economic crisis. Increases in incidents of anti-Chinese sentiment and destruction of Chinese-owned businesses (Prystup and Dori, 1998) have also occurred due to the economic disparity that exists between ethnic Chinese and a large proportion of the population. Approximately four-million ethnic Chinese live in Indonesia, exerting considerable control and influence over the local economy through their ownership of approximately 75 percent of Indonesia's corporate wealth (Chase, Hill, and Kennedy 1999, 19). From a political perspective, China has attempted to influence Indonesian politics in the past, supporting the Indonesian Communist Party in the late 1950s and early 1960s until the failed coup attempt in 1965, which saw Suharto assume power and enforce robust anticommunist policies. With Suharto gone, opportunity exists for China to again exert its influence.

#### Economic Interests

The US has considerable economic interests in both Indonesia and the wider East Asian region. US trade with East Asia exceeds that with Western Europe, with US exports to Asia in the previous decade increasing by 150 percent, while US investments tripled during the same period to over \$200 billion (Powell, 2003). East Asia is the second largest trading partner to the US after the North American Free Trade Area, and represents over one-third of total US trade and one-quarter of the world's gross domestic product (Kelly 2001). Southeast Asia represents a considerable portion of total East Asian trade for the US. This market, which represents a half-billion people, consumed

\$57 billion in US goods and services in 2002, while ASEAN countries were the recipients of \$53 billion in US investment in the same year (Kelly 2003). Most Fortune 500 US-based multinational corporations have significant economic interests in Southeast Asia, with more than 300 major US firms represented in Indonesia alone (Council on Foreign Relations 2001, 9,28).

Despite the 1997 economic crisis, the economic relationship between the US and Indonesia has remained reasonably consistent, predicated on the US as a key market for Indonesian exports, while Indonesia remains an important destination for US investment and environment for US business. Prior to the 1997 economic crisis, Indonesia was a regional economic powerhouse, with an economy twice as large as Singapore and almost 50 percent larger than Hong Kong (Przystup and Dori, 1998). Indonesia purchased around \$4 billion in US exports in 1996, which provided an estimated 60,000 jobs for US workers, while the US invested around \$7.6 billion in Indonesia in the same year (Przystup and Dori, 1998). Indonesian imports of US goods peaked in 1997 at \$5.4 billion; however, they have declined since the economic crisis, with the most recent economic data from 2001 indicating a 26 percent drop from 1996 to \$3.2 billion. Indonesia currently ranks twenty-first as a supplier of imports to the US, behind fellow Asian nations of China (fourth), Malaysia (eleventh), Singapore (fourteenth), Thailand (fifteenth), and the Philippines (nineteenth) (National Commission on US-Indonesia Relations 2003, 25). On the other hand, Indonesian exports to the US have remained largely unchanged since 1996, averaging \$7 billion each year, with the exception of 2000 where they peaked at \$8.5 billion (ASEAN Secretariat, 2002a). Over twenty-five billion dollars in US investment is concentrated in Indonesia (National Commission on US-

Indonesia Relations 2003, 9), while US foreign direct investment (FDI) has since increased above pre-Asian economic crisis levels, reaching \$8.8 billion for 2001 (ASEAN Secretariat, 2002b) and defying the general trend of decreasing levels of foreign direct investment since 1997 (Dalpino 2001a, 2).

US corporations are represented in a diverse array of industries in Indonesia, with the energy and mining sectors dominating US economic interests in the country. The energy sector is important for both countries, with the US being the largest importer of Indonesian-produced oil and gas (The White House 2003), while these commodities account for over 25 percent of all revenue for the Indonesian government, and around 40 percent of total direct foreign investment in Indonesia (National Commission on US-Indonesia Relations 2003, 25). US corporations, such as Exxon Mobil and Unocal, have been actively involved in energy extraction and exploration in Indonesia for over thirty years, with Unocal doubling capital spending on new oil and gas projects in 2001 to \$217 million, including the development of Indonesia's first deep water production facility (US-ASEAN Business Council, 2001). Indonesia accounts for 20 percent of the world's liquefied natural gas exports, with the full extent of its reserves yet to be determined (Council on Foreign Relations 2001, 29), representing a valuable potential energy source outside of the Persian Gulf region to US, Asian, and Pacific-based economies.

In the mining sector, US companies, such as Newmont Mining and Freeport McMoRan, conduct some of the world's largest mining operations in Indonesia. Freeport McMoRan operates the Grasberg gold and copper mine in the Papua province, which is the most extensive open cast mine in the world and estimated to contain the largest deposits of copper and gold in the world (Freeport McMoRan Copper and Gold 2002, 5).

Outside of the energy and mining sector, multinational apparel and shoe producer Nike manufactures over one-third of its total global production in Indonesia (Council on Foreign Relations 2001, 28) through subcontracting to Asian and locally owned companies, employing around 120,000 Indonesians within its shoe manufacturing business alone (Richburg 1996, np).

### Political Interests

Indonesia has undergone rapid political transformation since Suharto rescinded power following the 1997 economic crisis, and the US has considerable interests in the success of this ensuing transformation. President Bush's statement during his short visit to Bali in October 2003 emphasized the importance of democratic transformation in Indonesia. "The success of Indonesia as a pluralistic and democratic state is essential to the peace and prosperity of this region. Indonesians profess many faiths and honor many traditions. And like Americans, you understand that diversity can be a source of strength. Your national motto, 'Unity in diversity,' sounds a lot like our own 'Out of many, one.' Americans admire the way Indonesians maintain unity and balance modern ideas with ancient traditions and deep religious faith" (2003). This statement addresses security and economic interests; however, there are also significant political factors and interests for the US which will now be addressed.

With a Muslim population that is larger than the combined Muslim populations of the Middle East (Przystup and Dori, 1998), the importance of successful democratic transformation in Indonesia is significant, particularly in the contemporary environment, as the US supports the introduction and development of democratic institutions in countries such as Iraq and Afghanistan. Both President Bush and President Megawati



reinforced this theme in their joint statement in Bali, highlighting that “as the most populist majority-Muslim nation, Indonesia is a powerful example that democracy and Islam can go hand in hand” (The White House, 22 October 2003). Success in Indonesia could also have wider influence beyond just Muslim nations, offering lessons to societies emerging from authoritarian rule of how rapid political and social change can occur successfully. Within ASEAN, such influence could be significant in the case of Burma, where Indonesia’s experience in establishing democratic civil-military relations could have some influence on political development in that country (Dalpino 2001a, 1-2).

The second factor is related to Indonesia’s moderate Muslim population and its reluctance to accept the influence of more fundamentalist forms of the religion, particularly in the political arena. Political parties associated with Islam have been unable to establish significant levels of support in the country, attaining only 13 percent of the vote in the 1999 elections. In addition, an Islamic bloc in the People’s Consultative Assembly, which attempted to press for legislation to introduce Shariah Law to the country in 2002, withdrew its proposal when it became obvious that it would suffer a humiliating defeat (National Commission on US-Indonesia Relations 2003, 30).

The third factor is obtaining Indonesian support for the global war on terror. This is important to the US for two reasons: to counter the terrorist threat that currently exists in Indonesia and to gain support for US antiterrorism policy from a nation that can potentially influence other Muslim and nonaligned nations through forums, such as Organization of Islamic Conference and the Non-Aligned Movement. Indonesia has played a key consensus-building role in the past with nations that fall into these categories, gaining support for international and US intervention following the Iraqi

invasion of Kuwait in 1991 (Dalpino 2001a, 1). However, following 11 September 2001, Indonesia has been less forthcoming in its support for US policy. Although President Megawati condemned the attacks on New York and Washington, D.C., she has criticized US military intervention in both Afghanistan and Iraq. The Indonesian government has displayed increased levels of cooperation at a regional level with antiterrorism measures in the wake of the Bali attacks in 2001; however, its position with regard to US military action in Afghanistan and Iraq has remained unchanged.

The final interest is reviving Indonesia's leadership role in ASEAN and the ASEAN Regional Forum (ARF) to enhance the effectiveness and influence of these organizations. Indonesia's traditional leadership role in these organizations has declined in recent times as a result of an inward focus to overcome internal political turmoil following the resignation of Suharto in 1997. ASEAN was described by Assistant Secretary Boyce as suffering "a lack of focus" while Indonesia diverted its attention to develop its own "functional democracy." Boyce went on to say that "without a stable and supportive Indonesia, ASEAN could be rendered hollow" (Boyce 2001). The importance of the effectiveness and continued viability of these organizations to the US is significant. The ARF is the only forum where the US has the opportunity to discuss regional security issues with China, Japan, and ASEAN member nations as a collective group, which is a significant when addressing security issues for the East Asia region (National Commission on US-Indonesia Relations 2003, 9).

#### What is Contemporary US Policy towards Indonesia?

Our task, in dealing with the world's third-largest democracy, a nation of 210 million people spread across an archipelago comprising thousands of islands dotting vital sea-lanes, is to assist, to facilitate, and to provide support in these critical years as

Indonesia works to establish the foundations for a lasting, democratic, and unitary nation with a transparent, market economy. We want Indonesia to succeed, and we will do whatever we can to help it succeed (2001).

James A. Kelly, Assistant Secretary for East Asian and Pacific Affairs

The analysis will now focus on defining contemporary US policy against the interests identified in the previous sections of this chapter to satisfy the primary research question and allow conclusions to be drawn. This part of the analysis will identify contemporary US policy within the categories of security, economic, political, and humanitarian interests.

### Security Interests

The security issues relating to Indonesia are both broad and complex, covering a variety of conditions ranging from interethnic conflict to terrorism. The US's ability to influence these issues is further complicated by the legislative requirements of the Leahy Amendment, which restricts engagement with the Indonesian military, who are considered the key element to maintaining stability within the country.

From a strategic and regional stability perspective, the Bush administration has been forthright and consistent in its policy supporting the territorial integrity of Indonesia. President Bush's joint statement with President Megawati following their meeting in Bali in October 2003 reemphasized the administration's policy position, stating, "the US opposes secessionist movements in any part of Indonesia, and calls on separatist groups in Aceh and Papua to redress their grievances through peaceful political means" (The White House, 2003). Coupled with this stance, the Bush administration has been reluctant to challenge the Indonesian government's own internal security policies and procedures, which have been primarily based on the use of the military to maintain

stability in these provinces. This is to avoid creating stress on the relationship between Jakarta and Washington, which may negate the US's ability to influence the Indonesians towards policy goals and objectives with a higher priority, such as defeating terrorism (Smith 2003a, 1). This stance has been maintained despite a number of recent challenges to the relationship. These challenges include the suspected murder of two US citizens in Papua in August 2002 as a result of an Indonesian Army ambush, the incarceration and torture by Indonesian Police of a US nurse accused of entering Aceh without the necessary visa requirements (Smith 2003a, 3), and the dubious human rights record of the Indonesian military in East Timor in 1999, which was the catalyst for the implementation of the Leahy Amendment.

Despite the restrictions of the Leahy Amendment, the Bush administration has made considerable effort to revive the military-to-military relationship between the two countries within legislative constraints, recognizing the importance of the Indonesian military for the maintenance of security and stability, and for the successful transformation to democracy. As John Haseman highlights, "The armed forces establishment remains the single most influential and powerful element of Indonesian society. Its pre-eminent role in security planning and operations is likely to remain for the foreseeable future regardless of any efforts at political reform and democratization. Most Indonesians realize that a strong and effective military force is essential to a smooth transition to a more democratic system and to guarantee the nation's security, particularly during the turbulent times certain to stretch into the future" (2001, 9). This view is also supported by prominent human rights activists within Indonesia (Smith 2003a, 3).

The administration had decided to revisit the military-to-military relationship prior to the altered strategic and security environment following the terrorist attacks in the US on 11 September 2001. This was due to the US's inability to influence the reform process in the Indonesian military through US education and training assistance programs because of the Leahy Amendment (Smith 2003a, 3). Revisiting the military-to-military relationship has included putting legislation before Congress with revised conditions for restoring military ties, with the new act proposing that three conditions be satisfied by the Indonesian government with regard to addressing human rights abuses committed in East Timor in the 1990s. This is in contrast to the eight conditions stipulated within the Leahy Amendment (Haseman 2002, 26).

To date, resumption of military ties has been limited to the sale of nonlethal military equipment and to the recommencement of a small IMET program in 2003, funded from the Department of Defense budget, which is not subject to the conditions of the Leahy Amendment (National Commission on US-Indonesian Relations 2003, 16). Antiterrorism assistance from the US has also been forthcoming, primarily focused on the Indonesian police as opposed to the Army. However, key administration officials have stressed the importance of enhancing the military relationship as an important policy priority, with Secretary of State Powell emphasizing the administration's goal to push for IMET to improve the capabilities and standards of the Indonesian military (Powell, 2002a), while President Bush reaffirmed that "normal military relations are in the interests of both countries and agreed to continue working toward that objective" (The White House, 2003).

The defeat of terrorist organizations with global reach has become the preeminent policy priority for the Bush administration in both Indonesia and the East Asia and Pacific region (Daley 2003), with US policy for the region comprising four elements. These elements are military cooperation, support for regional cooperation on antiterrorism, technical and other assistance to strengthen legal and administrative procedures, and an information campaign as part of a worldwide effort to strengthen support for the US in the Muslim community (Hathaway and Lee 2002, 109).

Following 11 September 2001, there was reluctance on the behalf of Indonesians to accept that a potential terrorist threat existed within their own shores (Daley 2003). President Megawati's support was limited to condemnation of the attacks in the US, followed by open criticism of the subsequent military operation in Afghanistan, which was in line with public opinion in Indonesia at the time (Smith 2003a, 2). The administration reserved criticism of Jakarta, instead approaching antiterrorism policy from a regional perspective through engagement with ASEAN. ASEAN member nations in turn, applied political "peer pressure" to Indonesia resulting in Indonesia's compliance with various ASEAN agreements on antiterrorism, and the exchange of information and intelligence (Smith 2003a, 4).

The key agreement between the US and ASEAN is the US-ASEAN Joint Declaration on Combating Terrorism, which was signed by Secretary Powell and ASEAN in Brunei on 1 August 2002. The agreement provides an umbrella under which a broad range of cooperative antiterrorism activities are being organized (Kelly 2002), such as the establishment of the US-funded Southeast Asia Regional Center for Counterterrorism in Malaysia (Hathaway and Lee 2002, 111), which conducts training

for officials from all ASEAN member-nations in areas such as financial counterterrorism (US Embassy Jakarta, 2003b).

Even prior to the terrorist attacks in Bali in October 2002, the Bush administration had proposed a funding package and legislation that was approved by the Senate Appropriations Committee to provide \$50 million to the Indonesian police and Armed Forces between 2002 and 2006, with the majority of funds to go to the police to upgrade their ability to combat terrorism through better intelligence, education and training, and equipment and facilities. The most significant amount of approved funding from this package was \$12 million for a counterterrorism unit, with \$4 million in 2002 funds intended for training, and \$31 million provided in the 2003 and 2004 fiscal years for training and modernization (Haseman 2002, 26). In addition, \$4 million have been provided for fellowships for antiterrorism training and education for Indonesian officials, with five participants scheduled to attend the Naval Post Graduate School to conduct this training from September 2002 (Haseman 2002, 26).

The levels of cooperation between Washington and Jakarta in countering terrorism have progressed, in part due to the realization of both the Megawati government and Indonesian people following the Bali and Jakarta bombing incidents, that terrorism and extremism pose a very real threat to Indonesia (Daley 2003). From the Indonesian perspective, the effect of the Bali attack has had considerable economic consequences, given the important role tourism plays in the Indonesian economy, with analysts from the World Bank and Asian Development Bank predicting that the Bali attack alone would result in a 1-1.5 percent drop in GDP growth in Indonesia in 2002 (Hathaway and Lee 2002, 127). Countering terrorism has now become a mutual objective for both

governments, reinforced by discussions held between President Megawati and President Bush in Bali in October 2003. “Agreeing that terrorism poses a continued threat to international peace and security, the two Presidents committed to enhance their bilateral cooperation in the fight against terrorism, including through capacity building and sharing of information” (The White House, 22 October 2003). Also of note is the administration’s appreciation for the manner and speed in which the Indonesian authorities dealt with the investigation and prosecutions in the Bali bombing case, and the cooperation it has received from Indonesia in the war on terror. Colin Powell reiterated this position on a visit to Jakarta in August 2002, stating that “we are very satisfied and pleased with what Indonesia has been doing since 9/11” (Powell, 2002b).

The Bush administration has also adopted policy initiatives to enhance the image of the US within the Muslim population of Indonesia as part of a hearts and minds campaign. This has included a series of Department-of-State-sponsored television advertisements in Indonesia in which American Muslims talk about their lives in the US and their freedom to practice their religion (Smith 2003a, 4). President Bush has also attempted to leverage the tolerant and moderate nature of Islam in Indonesia as an example to the wider Muslim population around the world. Of significance was his meeting with five key religious leaders in Bali on 22 October 2003, including the leaders of Indonesia’s two largest Muslim organizations. Following this meeting, President Bush stated that “we know that Islam is fully compatible with liberty and tolerance and progress, because we see the proof in your country and our own” (Bush 2003b).

During this visit to Bali, President Bush also announced a new six-year, \$157 million program designed to support Indonesia’s efforts to improve the quality of



education in its schools (2003b). Although described by President Bush as an educational initiative, this program is designed to counter the more extremist teachings of Madrasas (Islamic religious schools) in Indonesia, which current Deputy Secretary of Defense and former US Ambassador to Indonesia, Paul Wolfowitz describes as “where poor children are given the chance to get off the street and study, but what they’re taught there is not real learning. It’s the tools that turn them into terrorists” (Wolfowitz 2003). This initiative has been incorporated within current US antiterrorism policy statements by the Department of State, where it is defined as “supporting educational reform and the opportunity to a modern education free of extremism” (Daley 2003).

From the perspective of countering piracy and potential terrorist attacks in the key maritime areas within Indonesia’s territorial jurisdiction, the US’s ability to have direct influence or provide assistance to the Indonesian Navy is restricted by the conditions of the Leahy Amendment. In lieu, the Bush administration has approached maritime security through engagement with ASEAN (Kelly 2002). This builds on existing initiatives between ASEAN member nations such as Singapore, which have an established relationship with the Indonesian Navy, to coordinate security in the Singapore Straights (Singapore Ministry of Defense, 2003).

Finally, the administration is addressing the issues of the maintenance of the balance of power and countering Chinese hegemony and potential Indian influence in the region through economic initiatives. James Kelly, the Assistant Secretary of State for East Asian and Pacific Affairs, stated that “we cannot ignore the fact that China’s growing economic power has created a competition for influence in the region, which makes it all the more important for the United States to remain actively engaged with our

Asian allies” (2003). This “engagement” includes providing Southeast Asian nations with the opportunity to forge bilateral free trade agreements (FTA) within the context of the Enterprise for ASEAN Initiative (EAI), which is seen as a means of either pre-empting, or matching similar agreements being offered to ASEAN countries by other regional powers such as China, India, and Japan (Hathaway and Lee 2002, 112). A more detailed explanation of the EAI will follow as part of an analysis of policy relating to US economic interests.

### Economic Interests

The Bush administration’s policy to support US economic interests in Indonesia has three key tenets. First are policy initiatives that are being applied to develop bilateral FTAs with ASEAN member nations. Second are the trade initiatives through the three US trade finance agencies to promote trade and investment within Indonesia. Third are economic development initiatives delivered through the US Agency for International Development (USAID) assistance programs.

The aim of the EAI is to provide a roadmap for closer trade relations with ASEAN nations to enhance what is already a significant commercial relationship (Kelly 2002), while also providing an incentive for ASEAN member countries to undertake economic and market-orientated reform (US-ASEAN Business Council 2002). Its goal, as described by James Kelly, “is to create a network of bilateral Free Trade Agreements between the United States and ASEAN countries and a common and prosperous future. For ASEAN, this initiative will boost trade and direct investment into the ASEAN region. For the US, it will stimulate greater exports, particularly in agriculture, and increase the

number of US jobs, estimated to be about 800,000 already supporting US exports to ASEAN”(2002).

The EAI is a three-tiered process. Countries must first be members of the World Trade Organization (WTO) and then negotiate Trade and Investment Framework Agreements (TIFAs) with the US before entering into discussions to design an FTA (Hathaway and Lee 2002, 112). Indonesia meets the first two criteria, and has “indicated an interest to explore” an FTA with the US (Toemion 2004).

Joint trade and finance initiatives for Indonesia were announced by President Bush during the visit of President Megawati to Washington D.C. on 19 September 2001. These initiatives see the three US trade finance agencies of the Export-Import Bank of the United States (EXIM), the Overseas Private Investment Corporation (OPIC), and the US Trade and Development Agency (TDA) providing up to \$400 million for programs to promote trade and investment within Indonesia, primarily within the oil and gas sector (The White House 2001). During the same visit, President Bush also committed to provide Indonesia with an additional \$100 million in benefits under the Generalized System of Preferences (GSP), which provides preferential duty-free entry for products from designated beneficiary countries and territories. In addition, both Presidents agreed to re-establish the US-Indonesia Trade and Investment Council (The White House 2001).

In addition to the joint trade and finance initiatives, the US also employs a range of assistance programs administered by the USAID. These programs are divided into three broad categories. The first is development assistance, which addresses areas such as democratic transformation, governance, and environmental issues. The second is health

and humanitarian programs, while the third and final category is economic growth and the energy sector. The first two elements will be addressed later in this chapter.

USAID programs that are applicable to US economic interests include supporting sustainable economic growth to provide a strong foundation for Indonesia's economic recovery and strengthening governance in the energy sector. These programs are generally conducted as joint ventures between USAID and NGOs, commercial consulting companies, and both US and Indonesian educational institutions (National Commission on US-Indonesian Relations 2003, 52-53).

#### Political Interests

US political interests in Indonesia are focused in two key areas. The first is to assist Indonesia with democratic transformation, while the second is to reinvigorate Indonesia's leadership role in ASEAN to enhance the overall effectiveness of this regional body. US support for democratization in Indonesia has been endorsed by successive administrations since Suharto's departure in May 1998, with the Clinton administration listing Indonesia as one of the four countries to be considered critical for democratic development (Smith 2003b, 6). This position has not altered under the current administration, with President Bush making the following statement at a joint press conference with President Megawati in Bali in October 2003: "Indonesian's have made good progress over the last five years in strengthening democracy and building civil institutions that sustain freedom. Next year your country will reach an important milestone, when some 150 million Indonesian's vote in the nations first ever elected presidential election. The United States is working with Indonesia to support these

historic elections. In a short time, Indonesia has traveled far down the road to full democracy. And Indonesians should be proud of this accomplishment” (2003b).

US policy to support democratization has a number of facets. First has been continued US encouragement and support for this process, which Anthony Smith has referred to as “nudging” Indonesia in the right direction, given that the process of democratization is “largely domestically driven” (2003b, 6). Second are initiatives implemented through USAID’s Democracy and Governance Program (US Embassy Jakarta 2003a), which focus on democratic reform and support of the process of decentralizing certain functions within the Indonesian government to provide increased autonomy for the provinces. The aims of the democratic reform programs include improving the effectiveness of key national institutions, strengthening civil society through increasing citizen participation, civil control of the military, and judicial and media reform (National Commission on US-Indonesian Relations 2003, 53). Government decentralization program aims include establishing and enabling a legal and fiscal environment for decentralization reforms, developing local capacity to deliver services, developing mechanisms and practices that enable local participation, and developing sustainable and independent associations that advocate continual improvement of local governance (National Commission on US-Indonesian Relations 2003, 53).

The Democracy and Governance Program received an additional \$17.5 million by way of a bilateral grant agreement in September 2003 for democracy and governance support, and for preparations for the 2004 Presidential elections. This increased total US support to this program to around \$40 million for 2003 from an overall assistance package of around \$160 million (US Embassy Jakarta 2003a).

Improving the effectiveness of ASEAN through reinvigorating Indonesia's leadership role within this organization is an interest of the US that is not specifically addressed as an independent policy matter, but rather is reliant on the relative success of existing security, economic, and political policy initiatives that support stability and prosperity in Indonesia. ASEAN is an important component of the Bush administration strategy for the region, as demonstrated by initiatives described earlier in this chapter for countering terrorism. In addition, the administration has identified the need to "enhance engagement with the region's flagship" of ASEAN to strengthen cooperation and assistance to Southeast Asia (Kelly 2002) through economic policy initiatives such as the EAI and initiatives such as the ASEAN Cooperation Plan (ACP) 2002. The ACP, which was announced by Secretary of State Powell in August 2002, seeks to enhance US engagement with ASEAN and support increased levels of integration within the organization (Kelly 2002).

#### Humanitarian Interests

Promoting human dignity is one of the key tenets of the 2002 NSS, with specific reference made in this document to the importance of principles such as respect for the rule of law, limits on absolute power of the state, free speech, freedom of worship, equal justice, respect for women, religious and ethnic tolerance, and respect for private property (The White House 2002, 5). Although countering terrorism has become the preeminent interest in Indonesia for the Bush administration, the Indonesian military's dubious human rights record has remained a prominent issue for this administration, which is reflected in both policy statements and programs. Secretary of State Powell reiterated the US position on human rights when he stated that in order to defeat terrorism, "we have to

attack them from the highest moral plane” and “human rights have to be protected” (Hathaway and Lee, 2003, 130).

US policies and programs that support democratic transformation are also an important facet of this administration’s support for humanitarian-related issues. In addition, USAID sponsors a number of initiatives that specifically address humanitarian issues, including programs to protect the health of women and children, and programs to reduce the impact of conflict and regional crisis through the provision of humanitarian aid and emergency food assistance (National Commission on US-Indonesian Relations 2003, 54). Of note is US assistance to stop the trafficking and exploitation of women and children in conjunction with the Indonesian authorities and concerned NGOs (Boyce 2003). Humanitarian-related programs represented approximately \$41 million of the overall assistance program budget of \$130 million in 2002 (National Commission on US-Indonesian Relations 2003, 35). The operating budget for 2004 is set to continue this assistance at similar levels, maintaining Indonesia as one of the ten largest recipients of US aid (National Commission on US-Indonesian Relations 2003, 35).

## CHAPTER 4

### CONCLUSIONS

The partnership between our two peoples is strong and is growing stronger. In all that lies ahead, in the defense of freedom, in the advance of tolerance and democracy, Indonesia will have a firm ally in the American government. And you'll have the friendship and the respect of the American people. (2003)

George W. Bush

The US has a diverse range of national interests in Indonesia. Some of these interests are enduring and will remain important to both US national security and economic prosperity in the future, while other interests are more recent and continue to evolve. This thesis identified three broad areas under which US interests can be categorized. These categories are strategic and security, economic, and political interests.

#### What are US National Interest in Indonesia?

The evaluation of the 2000 and 2002 National Security Strategies highlighted some interesting nuances between the Clinton and Bush administrations as to how Indonesia is perceived in Washington and its relative importance to both US national security and its wider interests. In comparison to the 2000 NSS, the 2002 iteration is based on similar values and principles. However, the 2002 strategy has a different focus, which can be attributed to the Bush administration's preoccupation with the global war on terrorism. This has been the major factor in Indonesia's elevated importance in the eyes of the current administration, which is reflected in a range of policy decisions and programs that employ all the instruments of national power.

Although both strategies provide an indication of generic US interests in Indonesia, the 2002 strategy is slightly more prescriptive and significantly clearer on how



the US views Indonesia and its importance to regional security. Of note is the use of the 2002 NSS to heap praise on the progress of Indonesia's democratic transformation, whereas the 2000 strategy refers instead to ongoing concerns with economic recovery. This encouragement demonstrates a shift between the two administrations in how Indonesia is now perceived in Washington, and its relative importance to the US within the contemporary geopolitical environment. Although much of Indonesia's increased attention in Washington can be attributed to the global war on terrorism, evidence suggests that the Bush administration's approach was developing prior to the terrorist attacks on the US in September 2001. In essence, the terrorist attacks only served to galvanize the administration's position and accelerate pre-11 September 2001 policy intent.

From an enduring strategic and security perspective, Indonesia's geographic location in Southeast Asia and its demographic composition will insure it retains the attention of Washington and the capitals of regional powers in Asia-Pacific region. Indonesia dominates the key sea lines of communication between the Indian and Pacific Oceans, which are critical to the economic viability of some of the world's largest economies and to US maritime power projection into the Indian Ocean and Persian Gulf. This is coupled with its large and ethnically diverse population and the influence that population has on regional stability as a whole, based on its capacity to coexist in a relatively harmonious manner.

More contemporary security and strategic interests range from the presence of known terrorist cells in Indonesia with links to global terrorist networks to balancing the influence of potential regional hegemony China and India in both Indonesia and the wider

region. Terrorism is a recent phenomenon in Indonesia and its defeat is now the preeminent interest that US has for this country. Two of the most significant terrorist attacks since 11 September 2001 have occurred in Indonesia, while its government and predominantly Muslim population are perceived as an important support base as the US attempts to build consensus among Muslim nations for its global antiterrorism policies.

From an economic perspective, Indonesia provides a large export market for US goods, particularly in agriculture and technology-based industries. Indonesia possesses a developing economy that has already displayed the capacity to deliver extraordinary growth rates, making it an attractive destination for both US investment and for US-owned companies to develop and expand their business. Indonesia also possesses considerable energy and mineral resources, with US companies actively involved in energy exploration and extraction, while the US remains the largest export market for Indonesian oil.

From the political standpoint, Indonesia's successful transformation to a democratic system of government is viewed by the US as an important component to promoting regional stability, human rights, and economic prosperity. Successful democratization in Indonesia also provides an important symbol of the compatibility of Islam and democracy. This example assumes particular importance as the US assists with the democratic transformation of countries such as Iraq, and encourages political reformist movements in Islamic societies such as Iran. Indonesia is also a key component of the ASEAN and the ARF collectives, which are organizations that promote both economic development and collective security in Southeast Asia. These organizations

also provide a platform for the US to engage regional powers, such as China, Japan, and South Korea, on regional security issues at a single forum.

### What is Contemporary US policy towards Indonesia?

The review of contemporary US policy towards Indonesia highlights the Bush administration's application of all the instruments national power. Important features of the policy include categorical support for Indonesia's territorial integrity, antiterrorism measures, economic incentives to promote closer trade relations and economic reform, and support for democratic transformation and humanitarian development.

To answer the primary research question, the Bush administration's policies do support US national interests in Indonesia, although the extent of these policies and programs is not consistent across all the interest categories that have been identified. The Leahy Amendment continues to limit the employment of the US military instrument of power by restricting engagement with the Indonesian military. Consequently, the administration is constrained in its ability to develop more elaborate policies and programs that satisfy security interests, such as countering piracy and terrorism, and enhancing the professional development of the Indonesian military. Despite these constraints, the administration has attempted to advance military cooperation between the two countries by providing funding for a limited IMET program from resources not subject to the Leahy Amendment, and engaging the Congress to review and amend the existing conditions of this legislation. To compensate for the reduced effectiveness of the military instrument of power, the administration has developed a range of policies and programs using other instruments of national power to support its security interests. These include innovative programs, such as funding moderate educational institutions

that will espouse more tolerant interpretations of Islam, and bolstering the Indonesian police's capacity to carry out antiterrorism measures.

Although antiterrorism dominates current policy, it has not reduced the levels of US commitment to its economic and political interests in Indonesia. The EAI and the potential FTAs that stem from this program are an example of the US's desire to promote economic prosperity in both Indonesia and the region as a whole, while also developing the Indonesian and regional economies as a potential market for US exports, and manufacturing base and business environment for US-owned companies. Political policy initiatives include moral support and praise for the democratic reform process and financial assistance delivered through USAID. This includes programs ranging from strengthening institutions such as the judiciary to financial support for the upcoming Presidential elections in 2004. Finally, USAID conducts a variety of humanitarian-based initiatives that focus on areas such as public health and humanitarian disaster relief, and the prevention of human trafficking and exploitation of women, maintaining Indonesia as one of the ten largest recipients of US development assistance funding.

#### Areas for Further Study

Areas for further study that have been identified in the course of researching and writing this thesis are as follows:

1. The effects of Leahy Amendment and reduced military to military contact on the professional development of the Indonesian military to meet the challenges of operating within a democratic society.
2. China's contemporary interests and influence in Indonesia.

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